

PPB Group (PEP MK)

Positive Momentum To Extend Into 2H25

Highlights

- **We remain positive on PPB's 2H25 earnings outlook** coming away from its recent 1H25 analyst briefing.
- **Core operations are expected to continue performing well**, driven by its agribusiness and film segments. Associate income contribution is also likely to hold steady, due to stabilising CPO prices.
- **Share price remains attractive with downsides largely priced-in**, in our view. Maintain BUY with a new target price of RM14.10.

Analysis

- **1H25 key highlights.** In 1H25, management remarked that underlying profit before tax by its core businesses came in at RM244m – a 37% increase yoy after excluding RM12.6m divestment gains in 1H24 – driven by its agribusiness and film business segments. Meanwhile, Wilmar's lower associate income contribution of RM480m (-6% yoy) was largely attributed to the strengthening of the ringgit vs 1H24. PPB Group's (PPB) net cash position rose 35% since end-24 to RM1,715m, led by its core businesses' strong cash flow generation.
- **Core businesses to maintain positive performance.** For 2H25, management expects its core operations to remain well-supported, particularly for its agribusiness and film segments. For **agribusiness**, the segment has benefitted from lower commodity price volatility while flour milling margins have been on the rise thanks to excess supply of wheat – amid favourable weather conditions – which kept feedstock prices down. As for its **film segment** – whose 1H25 contribution improved sharply yoy on higher cinema footfall and concession income – the positive momentum is expected to be sustained, supported by a strong line-up of local and international movie releases anticipated in 2H25. Separately, management also expects the impact of the expanded Sales and Service Tax (SST) in Malaysia to be manageable, at around RM30m per annum, of which RM10m is attributed to higher cinema rental expenses while the rest is mostly tied to increase in minor raw material prices (key raw materials such as corn and wheat remain SST-exempted).

Key Financials

Year to 30 Jun (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	5,721	5,504	6,595	6,897	7,035
EBITDA	540	309	331	268	273
Operating profit	540	309	331	268	273
Net profit (rep./act.)	1,776	1,219	1,401	1,507	1,600
Net profit (adj.)	1,825	1,219	1,401	1,507	1,600
EPS (sen)	124.8	122.2	98.4	105.8	112.4
PE (x)	8.1	12.5	10.3	9.6	9.0
P/B (x)	0.6	0.6	0.5	0.5	0.5
EV/EBITDA (x)	30.5	24.7	54.9	68.0	66.7
Dividend yield (%)	2.2	2.9	4.0	4.5	4.9
Net margin (%)	36.8	15.2	14.0	21.1	22.7
Net debt/(cash) to equity (%)	(0.9)	0.6	0.2	(0.5)	(0.5)
Interest cover (x)	8.0	9.7	6.3	4.9	5.0
ROE (%)	6.5	4.4	4.9	5.1	5.4
Consensus net profit	-	-	1,341	1,397	1,367
UOBKH/Consensus (x)	-	-	1.04	1.08	1.17

Source: PPB Group, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM10.14
Target Price	RM14.10
Upside	39.0%

Analyst(s)

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Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	PEP MK
Shares issued (m):	1,422.6
Market cap (RMm):	14,368.4
Market cap (US\$m):	3,427.8
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

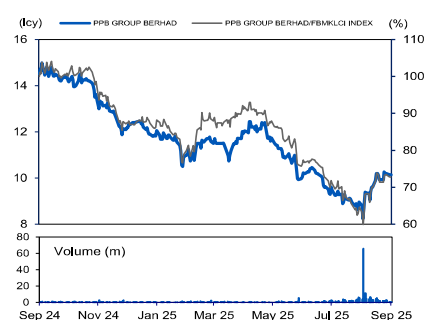
52-week high/low **RM15.00/RM8.23**

1mth	3mth	6mth	1yr	YTD
14.9	0.8	(12.0)	(30.3)	(18.4)

Major Shareholders

Kuok Brothers SB	50.6%
FY24 NAV/Share (RM)	19.2
FY24 Net Debt/Share (RM)	0.19

Price Chart



Source: Bloomberg

Company Description

Core businesses are grains trading, flour trading and animal feed milling as well as downstream activities such as livestock farming, food processing, bakery, and marketing and distribution of consumer products.

- **Dividend commitment reiterated.** PPB remains confident that the ongoing legal case in Indonesia involving its associate, Wilmar, will not affect the group's dividend payouts going forward, having declared a similar 12 sen DPS for 1H25. While the potential fine to Wilmar of up to US\$729m could amount to around RM600m or up to RM0.45/sen for PPB, management nonetheless highlighted its strong net cash balance of RM1,715m as at end-1H25 which is more than enough to sustain the group's dividend payouts (2024: 42 sen) alongside its ongoing capex plan (RM700m allocated over the next five years).

Valuation/Recommendation

- **Maintain BUY with a new target price of RM14.10**, from RM15.80 previously. This comes as we roll forward our valuation horizon to 2026 while maintaining our 2025-26 earnings estimates. The changes to our SOTP valuation are largely due to our expectation of the agribusiness contribution normalising in 2026, coupled with stronger ringgit assumptions affecting the valuation of Wilmar's associate stake. We remain positive on the stock for its appealing valuations – still trading at 10x forward PE or 1.5SD below historical mean of 14.6x – despite the minor rebound following its MSCI index exclusion. We believe most of the negatives have been largely priced in, namely: a) the potential Wilmar penalty; b) SST impact; and c) the potential exclusion from the KLCI, while we expect the stock to re-rate on stronger earnings delivery in 2H25.

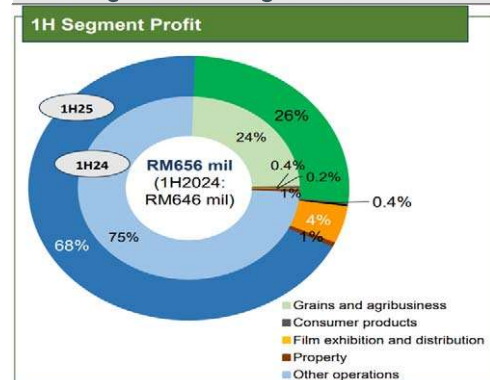
Earnings Revision/Risk

- **2025-26 earnings estimates maintained.** In 2H25, we expect PPB's underlying earnings to come in stronger, underpinned by both its core operations as well as associate contributions. For Wilmar, notwithstanding its ongoing court case in Indonesia and potential one-off financial impact to PPB of up to RM580m, underlying operations are set to perform better in 2H25 – both seasonally (2H typically accounts for 60-65% of Wilmar's earnings) as well as on a yoy basis – led by the associate's improving business backdrop in China alongside stronger earnings contribution from the plantation segment.

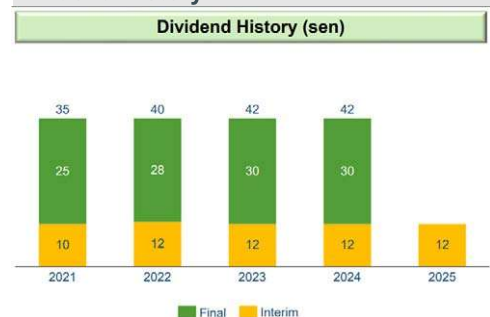
Share Price Catalyst

- Stronger-than-expected CPO prices and associate income contribution.
- Better-than-expected operating margins by its agribusiness and film segments.

1H25 Segment Earnings Drivers



Dividend History



SOTP Valuation

SOTP	PE (x)	RM/share
Grains & Agribusiness	38	4.46
Consumer Products	20	0.21
Film exhibition & distribution	25	1.04
Property	8	0.10
Stake in associates		
Wilmar International		8.40
Malaysian Bulk Carriers		0.03
Fair value (round-off)		14.10

Source: UOB Kay Hian

ESG Roadmap

• Environmental - Five-year target to reduce the energy-use intensity for flour and feed production by 5% by 2028. - Targets to reduce GHG emissions of flour and feed mills by 3% by 2025 and 5% by 2031. • Social - Commenced implementation of Group's Human Rights Policy across its supply chain. - Zero fatalities in all business divisions. • Governance - Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.
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Profit & Loss

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Net turnover	5,504	6,595	6,897	7,035
EBITDA	234	331	268	273
Deprec. & amort.	0	0	0	0
EBIT	234	331	268	273
Total other non-operating income	0	0	0	0
Associate contributions	1,057	1,250	1,431	1,545
Net interest income/(expense)	66	(53)	(55)	(58)
Pre-tax profit	1,489	1,528	1,644	1,763
Tax	(68)	(76)	(82)	(106)
Minorities	(26)	(51)	(55)	(58)
Net profit	1,219	1,401	1,507	1,600
Net profit (adj.)	1,219	1,401	1,507	1,600

Balance Sheet

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Fixed assets	1,743	1,953	2,163	2,373
Other LT assets	24,985	26,216	27,508	28,866
Cash/ST investment	1,088.5	970.5	973.2	1,003.3
Other current assets	2,503	2,977	2,399	2,443
Total assets	30,417	31,391	32,318	33,243
ST debt	1,279	1,279	1,279	1,279
Other current liabilities	241	285	296	301
LT debt	72	73	74	74
Other LT liabilities	500	500	500	500
Shareholders' equity	27,554	28,416	29,278	30,140
Minority interest	786.5	837.4	892.0	950.0
Total liabilities & equity	30,433	31,391	32,318	33,243

Cash Flow

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Operating	728	331	268	273
Pre-tax profit	1,333	1,528	1,644	1,763
Tax	(90.6)	(76.4)	(82.2)	(105.8)
Deprec. & amort.	0	0	0	0
Working capital changes	48.6	(175.4)	(43.8)	(20.0)
Other operating cashflows	(1,045.2)	(1,290.7)	(1,477.3)	(1,614.9)
Investing	18	159	257	257
Capex (maintenance)	(210)	(210)	(210)	(210)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	228	369	467	467
Dividend payments	(300)	(300)	(299)	(299)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	0	0	0	0
Beginning cash & cash equivalent	1,081.0	1,088.5	970.5	973.2
Changes due to forex impact	1.0	2.0	2.0	2.0
Ending cash & cash equivalent	1,088.5	970.5	973.2	1,003.3

Key Metrics

Year to 30 Jun (%)	2024	2025F	2026F	2026F
Profitability				
EBITDA margin	4.3	5.0	3.9	3.9
Pre-tax margin	25.2	23.2	23.8	25.1
Net margin	23.1	21.2	21.8	22.7
ROA	4.0	4.4	4.7	4.9
ROE	4.4	4.9	5.1	5.4
Growth				
Turnover	(5.9)	22.5	4.6	2.0
EBITDA	(60.3)	41.4	(19.1)	2.1
Pre-tax profit	(29.3)	12.7	7.5	7.3
Net profit	(31.9)	20.9	7.5	6.2
Net profit (adj.)	(34.7)	20.9	7.5	6.2
EPS	0.7	9.3	9.3	9.3
Leverage				
Debt to total capital	4.7	4.5	4.4	4.4
Debt to equity	5.1	4.9	4.8	4.8
Net debt/(cash) to equity	4.8	4.6	4.5	4.3
Interest cover (x)	4.9	4.8	4.6	4.5

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